S
352.44
L21FSU
SEP 30, 2007
1

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2007

STATE PUBLICATIONS COLLECTION

DEC 19 2007

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Montana State Library
3 0864 1004 1794 1

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2007

TABLE OF CONTENTS

	Page
Appointive Officials	iii
Report Distribution	iv
Transmittal Letter	1
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Fund Net Assets	3
Statement of Revenues, Expenditures and Changes in Fund Net Assets and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis	4
Analysis of Revenues and Expenses by Product	5
Notes to the Financial Statements	6

APPOINTIVE OFFICIALS

George Parisot, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2010
Beth O'Halloran	Missoula	January 1, 2010
Robert Crippen	Butte	January 1, 2011
Wilbur Rehmann	Helena	January 1, 2009
Craig Anderson	Glendive	January 1, 2009

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Brian Schweitzer
Director of Dept. of Administration – Janet Kelly
Legislative Auditor - Scott Seacat
President of the Senate – Mike Cooney
Speaker of the House – Scott Sales

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Dennis Himmelberger, Chair
Duane Ankney, Vice Chair (R)
Hal Jacobson, Vice Chair (D)
Debby Barrett
Gary Branae
Mary Caferro
Sue Dickenson
Gordon Hendrick
Teresa Henry
Pat Ingraham
Bill Jones
Bruce Malcolm
Walter McNutt
Alan Olson
Mike Phillips
Scott Sales
Veronica Small-Eastman
Frankie Wilmer

HOUSE – Business & Labor Committee

Scott Mendenhall, Chair
Mike Milburn, Vice Chair (R)
Jim Keane, Vice Chair (D)
Elsie Arntzen
Shannon Augare
Scott Boggio
Ernie Dutton
Kevin Furey
Ralph Heinert
Llew Jones
Harry Klock
Michele Reinhart
Wayne Stahl
Bill Thomas
Kendall Van Dyk
Jonathan Windy Boy

SENATE – State Administration Committee

Carolyn Squires, Chair
Joe Balyeat
Vicki Cocchiarella
Jeff Essmann
Steve Gallus
Larry Jent
Rick Laible
Jesse Laslovich
Dave Lewis
Jim Shockley
Joe Tropila

SENATE – Business, Labor, & Economic Affairs Committee

Vicki Cocchiarella, Chair
Joe Balyeat
Roy Brown
John Esp
Verdell Jackson
Lane Larson
Don Ryan
Frank Smith
Carolyn Squires
Donald Steinbeisser
Joe Tropila

Montana Lottery

November 2007

Montana Lottery Commission:

Fiscal year 2008 has begun with steady overall sales resulting in a General Fund transfer that is just slightly more then last year, at $2,778,754 compared to $2,714,849 for the first quarter of FY07. This transfer represents 24% of the total budget, which is slightly behind budget because the Montana Millionaire revenue is included in the yearly budget, and the game did not begin until October 1. The transfer is 25% of revenue.

Overall, sales were up 5% over last year; however, we have a mixture of increases and decreases in game sales.

We have increased sales over last year in Scratch, Powerball, and Montana Cash. Scratch sales increased 12%; Powerball sales increased almost 6%, and Montana Cash sales increased nearly 10%.

Sales decreased in Wild Card, Hot Lotto and Quik Tix. Wild Card sales decreased by 8%, and Hot Lotto and Qwik Tix sales decreased by 13%. A possible reason for the decrease is customer anticipation of the Montana Millionaire game.

Direct game costs have increased over last year at this time, because of overall game sales increase. Net operating revenue as a percent of total operating revenue is 33% compared to 34% last fiscal year at this time. Total operating expenses of $817,779 are lower than last year's by 3.7%. We will continue to see a smaller percent of difference in expenses between fiscal years since depreciation and amortization are now similar between fiscal years.

We have had a busy summer and fall, with the summer's fairs, and preparations for Montana Millionaire. Sales at fairs were stronger than expected, nearly doubling last year's sales. We anticipate a substantial increase in revenue and transfer next quarter when the Montana Millionaire game has ended. We look forward to awarding one $1 million prize, along with five $100,000 prizes and five $10,000 prizes on December 31.

Sincerely,

George Parisot
Director

2525 North Montana Avenue • Helena MT 59601-0598
Phone 406-444-LUCK (5825) • Fax 406-444-5830

MONTANA LOTTERY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007 and 2006
(UNAUDITED)

	Period Ended September 30, 2007	Period Ended September 30, 2006
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,884,424	$ 2,627,128
Receivables (Net)	1,284,537	1,224,475
Inventories	1,372,738	1,184,484
Other Current Assets	11,345	23,248
TOTAL CURRENT ASSETS	4,553,044	5,059,335
NONCURRENT ASSETS		
Computer, Furniture & Equipment	421,703	411,670
Accumulated Depreciation	(291,070)	(293,229)
Multi-State Reserve fund	1,569,808	1,426,076
TOTAL NONCURRENT ASSETS	1,700,441	1,544,517
TOTAL ASSETS	$ 6,253,485	$ 6,603,852
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 342,960	$ 363,637
Estimated Prize Liability	1,737,589	1,953,963
Due to Primary Government	1,451	1,412
Transfer Obligations	2,778,754	2,714,849
Deferred Revenue	135,120	109,295
Current Portion Comp. Absences	95,443	116,334
TOTAL CURRENT LIABILITIES	5,091,317	5,259,490
NONCURRENT LIABILITIES		
MUSL Prize Liability	1,100,093	1,264,788
Accrued Compensated Absences	62,075	79,574
TOTAL NONCURRENT LIABILITIES	1,162,168	1,344,362
TOTAL LIABILITIES	6,253,485	6,603,852
NET ASSETS		
Unrestricted Net Assets	0	0
TOTAL LIABILITIES AND NET ASSETS	$ 6,253,485	$ 6,603,852

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2007 and 2006
(Unaudited)

	Quarter Ended September 30, 2007	Quarter Ended September 30, 2006
OPERATING REVENUES:		
Scratch ticket revenue	$ 3,259,909	$ 2,903,250
Powerball revenue	5,056,585	4,787,287
Montana Cash revenue	1,091,622	993,315
Wild Card revenue	662,852	721,746
Hot Lotto revenue	774,157	894,055
Qwik Tix revenue	101,814	117,445
License, permits, and misc	301	980
Total Operating Revenues	10,947,240	10,418,078
Less Direct Game Costs:		
Scratch ticket prize expense	(2,065,280)	(1,805,801)
On-line ticket prize expense	(3,774,791)	(3,683,272)
Retailer commission	(649,990)	(598,490)
Cost of tickets sold	(234,111)	(191,832)
Vendor fees	(660,768)	(624,566)
Net Operating Revenue	3,562,300	3,514,117
OPERATING EXPENSES:		
Advertising	110,931	145,908
Advertising Production	53,674	56,481
Audit Fees	0	18,539
Communications	21,206	22,846
Contractual Services	10,543	19,467
Depreciation and Amortization	8,494	7,168
Administrative Service Fee	12,612	13,504
Multi-State Dues	20,175	6,077
Public Relations	39,367	31,576
Other	27,911	10,316
Personal Services	390,166	397,256
Repairs and Maintenance	3,518	3,374
Supplies and Materials	66,855	74,602
Travel	24,616	15,628
Utilities and Rent	27,711	26,572
Total Operating Expense	817,779	849,314
Operating Income	2,744,521	2,664,803
NONOPERATING REVENUES (EXPENSES)		
Interest earnings	34,233	50,046
Total Nonoperating Revenues(Expenses)	34,233	50,046
Income Before Operating Transfers Extraordinary Item	2,778,754	2,714,849
Operating Transfers In (Out) - General Fund	(2,778,754)	(2,714,849)
Total Operating Transfers Out	(2,778,754)	(2,714,849)
CHANGE IN NET ASSETS	0	0
Total Net Assets, Beginning of Period	0	0
TOTAL NET ASSETS, END OF PERIOD	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007
(Unaudited)

	Budget Fiscal Year July 1, 2007 - June 30, 2008	Actual Three Months Ended September 30, 2007 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ $13,200,000	$ 3,259,909	24.70
Powerball revenue	18,500,000	5,056,585	27.33
Montana Cash revenue	4,520,000	1,091,622	24.15
Wild Card revenue	3,100,000	662,852	21.38
Hot Lotto revenue	3,800,000	774,157	20.37
Qwik Tix revenue	450,000	101,814	22.63
Mt Millionaire	3,000,000	0	0.00
License, permits, and miscellaneous	2,000	301	15.05
Total Revenues	46,572,000	10,947,240	23.51
DIRECT GAME COSTS:			
Prizes - Scratch ticket	8,052,000	2,065,280	25.65
Prizes - Lotto games	14,960,000	3,711,426	24.81
Prizes - Qwik Tix	270,000	63,365	23.47
Prizes - Mt Millionaire	1,570,000	0	0.00
Retailer commissions	2,701,060	649,990	24.06
Ticket cost - scratch games	1,203,879	234,111	19.45
Ticket cost - vendor fees	3,000,000	660,768	22.03
Total Direct Game Costs	31,756,939	7,384,940	23.25
OPERATING EXPENSES:			
Advertising	628,650	110,931	17.65
Advertising Production	134,000	53,674	40.06
Audit Fees	102,223	0	0.00
Communications	88,193	21,206	24.04
Contractual Services	143,683	10,543	7.34
Administrative Service Fee	50,449	12,612	25.00
State Cost Recovery	276	0	0.00
Multi-State Dues	20,000	20,175	100.88
Public Relations	60,361	39,367	65.22
Other	60,463	27,911	46.16
Personal Services	1,666,742	390,166	23.41
Repairs and Maintenance	12,213	3,518	28.81
Supplies and Materials	192,435	66,855	34.74
Travel	79,018	24,616	31.15
Utilities and Rent	145,872	27,711	19.00
Equipment	42,256	0	0.00
Total Operating Expenses	3,426,834	809,285	23.62
Operating Income	11,388,227	2,753,015	24.17
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	100,000	34,233	
NET INCOME (BUDGETARY BASIS)	$ 11,488,227	$ 2,787,248	24.26
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
1. Capitalized equipment purchases	42,256	0	0.00
3. Adjustment for depreciation expense	(32,000)	(8,494)	26.54
5. MUSL interest earnings	60,000	0	0.00
Total Reconciling Items	70,256	(8,494)	
NET INCOME (GAAP BASIS)	$ 11,558,483	$ 2,778,754	24.04

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE QUARTER ENDED SEPTEMBER 30, 2007
(UNAUDITED)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	QWIK TIX	MT. MILLIONAIRE	ADMIN
REVENUES.	$ 3,259,909	$ 5,056,585	$ 1,091,622	$ 662,852	$ 774,157	$ 101,814	$ 0	$ 301
DIRECT GAME COSTS:								
Prize Expense	2,065,280	2,430,440	567,451	342,418	371,117	63,365		0
Retailer Commissions	266,282	252,364	54,505	33,107	38,670	5,062		0
Cost of Tickets Sold	234,111	0	0	0	0	0		0
Vendor Fees	196,963	301,066	66,839	41,653	48,242	6,005		0
NET OPERATING REVENUE	497,273	2,072,715	402,827	245,674	316,128	27,382	0	301
OPERATING EXPENSES:								
Advertising	24,081	28,009	4,911	4,911	4,911	1,336	42,302	470
Advertising Production	0	7,572	3,804	3,804	3,695	0	34,798	1
Communications	9,623	1	1	1	1	1		11,578
Contractual Services	0	166	0	0	0	0	1,654	8,723
Depreciation and Amortization	4,510	1,533	722	451	451	376		451
Administrative Service Fee	2,979	1,329	1,140	782	776	662		4,944
Multi-State Dues	0	0	0	12,175	0	0		8,000
Public Relations	10,716	4,828	4,828	4,828	4,828	4,828		4,512
Other	9	2	2	2	2	2		27,891
Personal Services	99,965	42,164	33,190	20,972	20,756	17,618	23,000	132,501
Repairs and Maintenance	0	0	0	0	0	0		3,518
Supplies and Materials	26,273	114	86	86	86	0		40,208
Travel	7,019	1,755	1,755	1,755	1,755	0		10,577
Utilities and Rent	0	0	0	0	0	0		27,711
TOTAL OPERATING EXPENSES	185,175	87,473	50,439	49,767	37,261	24,823	101,754	281,085
OPERATING INCOME	312,098	1,985,242	352,388	195,907	278,867	2,559	(101,754)	(280,784)
NONOPERATING REVENUES (EXPENSES)								
Interest Earnings	0	0	0	0	0	0	0	34,233
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	34,233
NET INCOME BY PRODUCT	$ 312,098	$ 1,985,242	$ 352,388	$ 195,907	$ 278,867	$ 2,559	$ (101,754)	$ (246,551)
PROFIT AS A % OF REVENUE	9.57%	39.26%	32.28%	29.56%	36.02%	2.51%	N/A	N/A

NOTE. THIS IS ONLY THREE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting agency.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games, Powerball, Wild Card, Montana Cash, and Hot Lotto are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing. Qwik Tix revenue is recognized at the time of sale by the retailers.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended September 30, 2007, promotional credits resulted in a revenue reduction of approximately $36,106 and an expense reclassification of approximately $25,765.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto and Qwik Tix prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. Qwik Tix prizes must be claimed within six months of the sale date. The unclaimed prize amounts are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all games is represented in the table below.

	Quarter Ended 9/30/07	Quarter Ended 9/30/06	Year To Date 9/30/07	Year To Date 9/30/06
Lotto & Qwik Tix	$149,217	$172,351	$149,217	$172,351
Scratch	8,824	10,789	8,824	10,789
TOTALS	$158,041	$183,140	$158,041	$183,140

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	September 30,	
	2007	2006
Short-term investment pool	$1,725,108	$1,913,530
Cash on deposit with State Treasurer	149,166	703,448
Cash in revolving deposit account	10,000	10,000
Petty Cash	150	150
TOTALS	$1,884,424	$2,627,128

Reference to the State of Montana's Comprehensive Annual Financial Report would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $77,525 at September 30, 2007 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $1,503,976, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at September 30, 2007, for estimated ticket returns. This is an estimate based on returns received to date, as well as, an estimate of tickets unsold by retailers for games that have a public sale end date prior to October 1, 2007. The allowance for ticket returns is $227,834 at September 30, 2007. The return of vendor fees related to the allowance for returns is $8,395.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $1,270,440 stored in the warehouse, at retailers prior to being activated by the retailer and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At quarter end, supplies inventories totaled $102,298. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets consist of the following:

	September 30,	
	2007	2006
Prepaid Expenses	11,345	22,974
Employee Advances	0	274
TOTALS	$11,345	$23,248

Transfer Obligations. The account "Transfer Obligations" is $2,778,754 payable to the General Fund at September 30, 2007.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2007	Net Leave Earned/(Used)	Balance September 30, 2007
$181,338	($23,820)	$157,518

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch, Qwik Tix and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of Qwik Tix and lotto tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter ended September 30, 2007 retailers earned bonus commissions of $105,212. For the quarter ended September 30, 2007 total commissions were $649,990.

3. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, and media production. Those services and materials not included in the Advertising and Advertising Production expense categories are printing and ticket dispensers. The cost of these services and materials, included in Operating

Expenses as Contracted Services and Supplies and Materials, are detailed below for the quarter ended September 30, 2007:

Printing	$ 2,589
Ticket Dispensers	1,168
	$3,757

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the quarter ended September 30, 2007:

Insurance	$3,850
Warrant Writing Services	249
Payroll Services	305
Audit Fees	0
Computer Fees	9,525
Printing	665
State Accounting System Support	3,113
Supplies and Materials	906
Mail Processing Fees	2,523
Telecommunications	4,508
Vehicle Rental Fees	1,448
Public Relations	7,000
Administrative Service Fees	12,612
SWCAP and SFCAP	0
Other	734
TOTAL	$47,438

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended September 30, 2007, the prize expense of $5,840,071 is 53.35% of net Lottery ticket revenue of $10,946,939.

6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund

established by 23-7-401 to the State General Fund." For the quarter ended September 30, 2007, the net revenue payable to the State General Fund totaled $2,778,754.

7. MULTI-STATE LOTTERY JOINT VENTURE

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, and Hot Lotto are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Receivable with a balance of $1,569,808 as of September 30, 2007 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

Powerball Prize Reserve Account	$500,030
Powerball Set Prize Reserve Account	165,250
Powerball Unreserved Account	469,715
Wild Card Reserve Account	244,795
Hot Lotto Set Prize Reserve Account	190,018
TOTAL	$1,569,808

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than

making a lump sum payment. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. GAMES

Currently, the Montana Lottery games are scratch ticket games, four lotto games referred to as Powerball, Montana Ca$h, Wild Card, and Hot Lotto and four instant play/instant win games referred to as Qwik Tix.

The Montana Lottery will begin the Montana Millionaire game on October 1st. Expenses incurred as of September 30th can be found in the "Analysis of Revenue and Expenses by Product".

Scratch ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $15 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $200,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket

matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights.

Qwik Tix is a product line introduced by the Lottery in February 2004. There are four games, each with its own play style and prize structure. The four games are Lucky Numbers, a number match game; Hot Tac Toe, a tic tac toe grid; Jacks or Better, a poker game; and Montana Match, a match three symbols game. The Qwik Tix tickets are printed at the lotto terminal at the time of sale and can be redeemed immediately, with the maximum prize being $500. Each ticket costs $2 and consists of two plays of a single Qwik Tix game.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2001 the Montana Lottery Commission approved the award of a one-year contract with Oberthur Gaming Technologies Corp. (Oberthur) for the provision of scratch tickets; the resulting contract was signed on August 8, 2001. The contract is for one year with the option for six additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure. On May 2, 2007 Scientific Games International purchased Oberthur Gaming Technologies Corp.

Oberthur, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $7,500,000. The Lottery may terminate this contract by providing proper notification to Oberthur.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and

communications. Payment under the contract is based on 5.8% of net weekly Lottery sales. The contract provides for three one-year extensions, if agreeable by both parties.

10. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

As of September 30, 2007 the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Lotto*America winners was $11,370,739. The combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $16,150,210.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

11. LEASES

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $11,328.94 through August 2008. The base rate will increase 3% annually.

12. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments". Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk nor concentration of credit risk per GASB Statement No. 40.

The securities are held in trust for MUSL by Mellon Trust. This large diversified institution was chosen to minimize custodial risk. It has several national offices, with the Everett, Massachusetts office handling the MUSL account. Interest rate risk is minimized by requiring that the average portfolio maturity be no more than 1.33 years and that the maximum maturity for any one security cannot exceed five years.

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). A summarized description of their disclosure follows and full details may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, PO Box 200126, Helena, MT 59620-0126.

For STIP securities, BOI's policy to manage credit risk requires securities have the highest investment grade rating in the short-term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The six NRSROs include Standard and Poors, Moody's, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch.

Per the BOI, all STIP securities are registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank. The STIP investment policy does not specifically address concentration of credit risk. However, as of June 30, 2005 there were no single issuer investments that exceeded 5% of the STIP portfolio. Per GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool.

-Alternative accessible formats of this document will be provided upon request.